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Opening Statement
Chairman Michael G. Oxley
Committee on Financial Services

Subcommittee on Financial Institutions and Consumer Credit
“The New Basel Accord: Private Sector Perspectives”
June 22, 2004

I want to thank the Gentleman from Alabama for all of his work in bringing the Basel II into the spotlight and making improvements to the Accord. Without his efforts, and the efforts of other leaders on this Committee, many of the important changes to the Basel Accord would not have been made.

This Committee has held three hearings on Basel II, approved legislation in this Subcommittee, written a comment letter on the proposed ANPR, and held numerous meetings with the regulators and the affected parties. The result of all of this hard work has been significant changes to the Basel Accord, increased cooperation among the federal regulators, and more sophisticated risk management.

The original Basel Accord establishes the amount of capital banks should hold against certain risks. It is an important agreement between the financial regulators around the world and has needed revision and improvement for several years. The business of global banking has changed significantly since the first Basel Accord was adopted, and Basel II goes a long way to bring risk management up to date.

When the Committee began its review of the Basel II proposal last year, the federal financial regulators were not in agreement on how the proposal should be negotiated, and were not communicating well with one another. The U.S. did not have a unified negotiating position, with some on the U.S. team ignoring the concerns of others. There is little doubt that this undermined the U.S. negotiating position. At the urging of the Financial Services Committee, the federal financial regulators began to communicate with one another better, they stopped bickering in the press, and the U.S. negotiating position improved.

I was extremely concerned that the financial regulators were moving too quickly to adopt Basel II. There was not enough information on the potential effect this sweeping agreement could have on both domestic and international banking. Since we first began examining the agreement the Federal Reserve has issued white papers on competitiveness and the effect Basel II will have on real estate lending, they have begun a bench marking study of operational risk, they have agreed to do another qualitative impact study, and most importantly, they have agreed to delay implementation of Basel II until the end of 2007. This delay will allow both the regulators and the affected institutions time to develop the necessary systems to run Basel II.

Last week the regulators announced that they would consider revisions to Basel I in order to limit any anti-competitive effects that the two-tiered capital system may have. The impact that Basel II could have on consolidation in the banking sector has been a concern of this Committee since we first began this debate. I welcome this announcement and will look forward to seeing more details of the Basel I reform efforts.

Important improvements to the treatment of expected losses and unexpected losses, credit card portfolios, and increased examination of the home/host regulatory issues have all been positive, however there are still a few issues that remain to be resolved. Commercial real estate, operational risk, and an assessment of the cost and complexity of the agreement still must be resolved.

I would like to thank the witnesses for coming this morning and I look forward to hearing your perspectives on the Basel II Accord.

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